

# City and County of Denver Mayor's Proposed 2012 Budget



October 2011



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# Mayor's Proposed 2012 Budget

**Michael B. Hancock, Mayor**



**City and County of Denver  
October 2011**

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# City and County of Denver

## 2012 Budget

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**For the Fiscal Year Ending  
December 31, 2012**

**Michael B. Hancock, Mayor**

George Delaney	Manager of Public Works
Dody Erickson	Manager of Parks and Recreation
Alex Martinez	Manager of Safety
Cary Kennedy	Chief Financial Officer
Bob McDonald	Manager of Environmental Health
Adrienne Benavidez	Manager of General Services
Penny May	Manager of Human Services
Kim Day	Manager of Aviation
Molly Urbina	Manager of Community Planning and Development
Doug Friednash	City Attorney

### **City Council**

District 1	Susan K. Shepherd	District 8	Albus Brooks
District 2	Jeanne Faatz	District 9	Judy H. Montero
District 3	Paul D. López	District 10	Jeanne Robb
District 4	Peggy Lehmann	District 11	Christopher Herndon
District 5	Mary Beth Susman	At Large	Robin Kniech
District 6	Charlie Brown	At Large	Deborah (Debbie) Ortega
District 7	Chris Nevitt		

### **Auditor**

Dennis Gallagher

# City and County of Denver

## 2012 Budget

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### Department of Finance

**Cary Kennedy**, Chief Financial Officer

**Ed Scholz**, Deputy Chief Financial Officer

### Budget and Management Office

**Brendan Hanlon**, Acting Budget Director

**Stephanie Karayannis Adams**, Manager of Performance Initiatives

**Gretchen Hollrah**, Capital Program Manager

**Scotty Martin**, Manager of Business Process Analysis

**Laura Wachter**, Manager of Budget Operations

**Laurel Bandy**, Associate Financial Management Analyst

**Steven Bohn**, Senior Financial Management Analyst

**Tom Chase**, Management Analyst III

**Milton Cherry Sr.**, Associate Agency Budget Analyst

**Catherine Dockery**, Senior Financial Management Analyst

**Molly Duplechian**, Senior Financial Management Analyst

**Scott Fisher**, Management Analyst III

**Alyson Gawlikowski**, Revenue Coordinator

**Kelly Greunke**, Financial Management Specialist

**Laura Kane**, Associate Financial Management Analyst

**Derrick Kuhl**, Associate Financial Management Analyst

**Barbara Marshall**, Budget Systems Administrator

**Tom Migaki**, Grants Coordinator

**Sadia Sattar**, Associate Financial Management Analyst

**Theresa Wilson**, Financial Management Specialist

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# **Introduction**



October 17, 2011

Dear Denver City Council, City Employees and Residents of Denver:

Over the past 12 months, the global economic crisis has continued to challenge our city, state and nation. The economy remains volatile; unemployment remains high; and businesses, homeowners and residents remain concerned about their future. These factors, along with several years of weak consumer confidence and declining revenue, have forced the City of Denver to fundamentally re-think all aspects of government, including what services we provide and how we deliver them.

Fortunately, thanks to responsible fiscal management and thoughtful stewardship of taxpayer dollars, Denver is doing a good job of weathering the storm. Together, we have made the difficult but necessary decisions to keep our budget balanced, preserve essential services and maintain strong ratings in the bond and investment markets.

Today, I am pleased to present my 2012 budget proposal -- a lean spending plan that will serve as a blueprint for a better, faster, stronger city government that we can all be proud of. While this budget is not without pain and sacrifices, it maintains current service levels at libraries, recreation centers and parks, provides both flexibility and stability, and allows us to begin growing our financial reserves.

The 2012 budget will mark the fourth year in a row we have had to close a deficit between projected revenues and expenditures. To balance the budget in 2009 we closed an \$86 million deficit, in 2010 we closed a \$160 million deficit, and in 2011 we closed a \$100 million deficit. Add to that the \$100 million deficit we are closing in the 2012 budget, and we will have closed a combined \$446 million shortfall over four years. That equates to approximately 13 percent of the budget each year in 2009, 2010, 2011, and 2012.

Creating the 2012 budget presented the City with the difficult financial challenge of further reducing expenditures after already making significant cuts in 2009, 2010, and 2011. We approached this budget process with a focus on maintaining core services that are most critical to residents, while simultaneously identifying sustainable savings that strengthen the City's ability to deliver services more efficiently and effectively. In this budget we continue many of the policies adopted in previous years to reduce spending and maintain operational flexibility, including not filling non-essential vacant positions, abolishing positions where possible, and requiring furloughs for city workers.

The \$100 million deficit projected through the end of 2012 is the difference between original projected revenues and expenditures had we taken no action to balance the budget. To close the shortfall, we are following a strategy similar to actions taken in 2011, allowing us to achieve cost savings, enhance revenue where appropriate and prudently manage and grow reserves.

We are proposing to close the \$100 million gap in 2012 through:

- Efficiencies and savings \$62.4 million
- Revenue enhancements and improved projections \$37.6 million

## **Priorities**

In collaboration with the City Council and numerous partners across the city and throughout the region, we intend to focus on four key priorities in 2012: creating jobs, fundamentally re-thinking government, creating new opportunities for Denver's children, and growing sustainable communities.

### *Creating Jobs*

We are crafting an economic-growth strategy that will refocus the Office of Economic Development on job-creation and make all of city government more customer and business friendly.

Business retention, expansion and attraction will be top priorities, and central to these efforts will be improving and increasing services at Denver International Airport, continuing the redevelopment of Denver Union Station, and advocating for the completion of FasTracks. This 21<sup>st</sup> century transportation network will create thousands of new jobs, link communities across the metro area with DIA and Downtown Denver, and become the economic envy of the nation.

Additionally, in 2012 we will finish many more voter-approved Better Denver neighborhood improvement projects, which will further stimulate our economy, create jobs and revitalize local business districts.

I am also pleased to support Denver businesses by proposing an elimination of the Occupational Privilege Tax registration fee and increasing the Business Incentive Program to attract good jobs at good wages to Denver. I am strongly committed to making Denver's economy the strongest in America, and these two efforts will move us forward..

### *Fundamentally Re-Thinking Government*

While the Great Recession exposed a permanent structural imbalance between revenues and expenses, it also has created an opportunity to establish fiscal sustainability, modernize our technology and build up our reserves.

My Peak Performance initiative will be an important vehicle for re-examining city government, improving service-delivery, and creating more transparency and accountability. Peak Performance will allow us to eliminate waste, streamline operations and remove inefficiencies.

Equally important will be recommendations from the City's Structural Financial Task Force. Those recommendations are expected later this year and, together with Peak Performance, will allow us to move beyond the status quo and create a more efficient, cost-effective and modern city government.

In 2012, all businesses, homeowners and citizens will be able to pay city taxes online, and we will continue to streamline the project review and approval processes through the newly created Development Services agency.

We will be engaging city employees and soliciting their ideas more than ever in 2012. We will hold roundtables, town halls and meetings, we will install suggestion boxes and we will invite emails as we seek new ideas to improve services and infuse a new spirit of customer service throughout city government.

### *Creating New Opportunities for Denver's Children*

The Denver Education Compact is a new initiative that will expand opportunities and improve the quality of education for Denver's children, giving kids a better chance to fulfill their potential and achieve their goals.

The Compact will unite the City, Denver Public Schools, higher education, businesses and nonprofits. It will require each entity to make specific commitments and agree to clear objectives and performance measures. The Compact also will hold each partner accountable through transparent reports back to the community.

We also will work closely with DPS to achieve operational and facility savings on items such as maintenance, upkeep and shared buildings.

In addition, with a new Cabinet-level Manager of Children's Affairs, we will pursue innovative and common-sense opportunities to support Denver's children and the agencies that serve them, ensuring that *all* kids are able to flourish in healthy and safe neighborhoods.

### *Growing Sustainable Communities*

To make Denver the most self-sufficient and self-reliant city in the nation, I am launching Denver Seeds – a network of urban gardens, greenhouses and local farming operations. Denver Seeds will cultivate a fresh-food economy that will create jobs, support local businesses and shift food production away from large out-of-state industrial operations and towards local growers.

In 2012, we also will continue to meet and exceed the Greenprint Denver sustainability goals, expand the newly launched Denver B-Cycle program – the nation's first large-scale citywide bike-sharing program – and continue our aggressive efforts to meaningfully address homelessness through the nationally recognized Denver's Road Home program.

### **Efficiencies and Savings**

The largest portion of the budget-balancing plan, **\$62.4 million**, comes from finding efficiencies and reducing costs. Many of the savings measures, such as restructuring operations and reducing positions, carry forward beyond 2012 and will help future year budgets.

The largest savings (approximately \$12.4 million) is realized by reducing the size of our workforce by abolishing 95 positions in the General Fund. Most of these positions are now vacant. We continue to selectively fill only critical vacancies necessary to maintain core services. The reduction in positions will bring the total reduction in workforce across all funds to 7 percent since 2009.

We are also not planning on holding any Police recruit classes in 2012, though we will re-evaluate this mid-year depending on attrition rates. By implementing recommendations from the Strategic Resource Alignment studies recently completed for the Safety divisions, we anticipate saving an additional \$5 million without impacting patrol street strength.

The budget appropriately uses alternative funding sources such as the E911 Trust Fund and the Theaters and Arenas Special Revenue Fund to fund related operations, and charges grant and bond funds for work done to complete those programs. We also have deferred some equipment replacement, and reduced professional services, supplies and miscellaneous expenses without compromising critical maintenance or operations.

Personnel costs comprise 70 percent of the General Fund budget. To achieve the savings of the magnitude the City needs, there will be some impact on our workforce. In 2012:

- There will be five furlough days for Career Service employees and appointees. Furloughs provide savings flexibility and can be cancelled if the economy improves beyond expectations through 2012.
- Funds have been reserved to potentially provide wage increases for Career Service Employees delivered through the Career Service merit system. The state of the economy will be monitored closely over the next several months and a determination will be made in early 2012 on whether to proceed with increases.

- City and Employee contributions toward health care premiums will increase by an average of 7 percent, which is below the national average of 10-12 percent.
- Based on the annual actuarial analysis of the Denver Employees Retirement Plan (DERP), the Plan will require increased contributions of an additional 1.5 percentage points to maintain the fiscal health of the Plan. The contribution will be split equally between the City and Employees. In early 2011, changes were made in the pension benefit structure for new employees to begin the process of reducing future pension costs. The focus of both the City and DERP will continue to be on minimizing or eliminating future growth in contributions and to reduce present contributions by carefully evaluating all aspects of the Plan.

General Fund appropriations for 2012 are projected to be **\$932 million**. While that's an increase of 5.8 percent from the revised 2011 operating budget, it is 3.7 percent less than it would have grown had we not taken steps to control costs and balance the budget. Some of the growth in the 2012 budget is for the maintenance and operation of new facilities coming online in 2011 and 2012, including the Stapleton Library and the new Crime Lab. These facilities will be operated at levels consistent with similar City facilities. Funding is also needed to address utility cost increases as well as maintenance needs for increased park land and new technology systems implemented in recent years.

Human Services is funded by state and federal funds and a dedicated city mill levy. Today caseloads are increasing significantly, yet state and federal funds continue to decline. In 2012, the department's priorities center on addressing service reductions in Child Care and TANF workforce programs. There is a continued emphasis on identifying and implementing business processes to maximize existing resources in all program areas and implementing a content management solution for the Family and Adult services division. The department will also work closely with state and federal representatives to support program funding as the economy continues its recovery

The Office of Economic Development receives approximately 93 percent of its budget from federal and state grants for housing and workforce programs. Federal funds will decline in 2012 due to the expiration of American Recovery and Reinvestment Act (ARRA) funds. The Divisions of Workforce Development and Business and Housing Services will experience declines in federal funds of 10 percent and 17 percent, respectively, and will adjust their programs accordingly.

## **Revenue Performance**

During the recent economic downturn the City experienced the largest decline in revenues since the 1930s. Beginning in late 2008, declining revenues forced us to begin revising our expenditure plans. After declining by 6.5 percent in 2009, General Fund revenues grew in 2010, mainly due to some one-time actions, and are also projected to grow in both 2011 and 2012. However, the growth is below historical averages and total revenues are approximately \$80 million less than if they had grown by the historical average of 3 percent. 2012 overall General Fund revenues are projected to be **\$908 million**, an increase of 2.1 percent from the revised 2011 projections of \$889 million. The revised 2011 projections represent a 2.2 percent increase over 2010 actuals.

Core sales and use tax, the largest source of General Fund revenue, is projected to grow by 4.1 percent in 2011 and 3.5 percent in 2012, again on a significantly reduced base. This is the primary reason for the budget deficit, with 2011 collections expected to be similar to 2007 levels. The projected growth rate is consistent with other state and local projections for 2012.

These projected revenues for both 2011 and 2012 are **\$37.6 million** better than what was originally projected back in January when we started the 2012 budget process. This is the result of improved projections for existing revenues and pro-active steps taken to enhance revenues to avoid even deeper cuts to core services and programs. These actions include the use of \$10 million of excess Fire pension mill levy funds to pay new

hire pension costs in 2011 and 2012, the implementation of a tax amnesty program in 2011, increases of recreation center fees approved by City Council in July, and the use one-time fund balances from other funds as appropriate for general fund expenditures.

**Reserves (undesignated fund balance)**

In managing our fiscal priorities, we place significant value on the maintenance of cash reserves sufficient to maintain core services during economic downturns. Not only do reserves provide a much needed cushion during challenging economic times, but credit rating agencies also carefully observe how the City manages and maintains its reserve levels.

In 2009, we used \$40 million of the City’s reserves, also known as undesignated fund balance, to address a \$160 million deficit and help create a balanced budget. The goal in 2010 and 2011 was to end with 10.5 percent of expenditures in reserves, down from the 15 percent level we maintain in normal economic times. The move was consistent with guidelines approved by the Blue Ribbon Task Force on Financial Management and with the City’s established reserve policy.

The proposed 2012 budget has reserves ending at 10.7 percent of expenditures, a slight increase over what was originally budgeted for 2012. As we have done in the past, we will focus on reaching 15 percent of expenditures as the economy allows. Consistently applying our reserve policy has enabled the City to both maintain its credit rating and diminish the effect of significant financial downturns. By continuing to respect our reserve policy, we are prudently managing our financial capacity and protecting our operations from significant disruption.

**2012: Looking to the Future**

This fiscally responsible, balanced budget will protect Denver’s financial health, maintain service levels and position us to build a better, faster, stronger city government. This budget demonstrates my priority commitments to economic growth, re-thinking government, creating new opportunities for all Denver children, and establishing sustainable neighborhoods and communities.

Balancing a fourth consecutive budget in this economic downturn required tough choices and ongoing sacrifices. Like families and businesses everywhere, Denver city government must live within its means. I want to personally thank city employees, residents, companies and other partners for helping us to achieve that goal.

Finally, we must acknowledge the work of former Mayors Hickenlooper and Vidal and their administrations for laying the groundwork for this budget proposal. They have my deepest gratitude and appreciation.

Sincerely,



Mayor Michael B. Hancock

## 2012 Budget Highlights

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### Overview

The total 2012 operating expenditure budget for all appropriated funds is \$1.46 billion, an increase of 0.2 percent from 2011. The City's main operating fund, the General Fund, will increase to \$932 million, up 5.8 percent from the 2011 revised budget. The operating budgets for the City's Enterprise Funds (Airport, Wastewater, Golf and Environmental Services) will increase to \$473 million, up 1.0 percent from 2011. The capital projects budget for annual CIP funds is \$89.7 million in 2012. The budget maintains adequate reserves in all funds according to the City's financial policies and includes approximately \$86.2 million in required debt service payments on outstanding general obligation debt.

For the fourth year in a row, the City faced a deficit heading into the 2012 budget because estimated revenues were less than projected expenditures. The deficit was originally projected at \$100 million. Departments were asked to meet budgetary targets and find expenditure savings and/or revenue enhancements to help close the deficit. The plan presented in this proposed budget closes the deficit through expenditure reductions (\$62.4 million) and revenue enhancements and improved projections (\$37.6 million). These actions are in addition to deficits that were closed in 2009 (\$86 million), 2010 (\$160 million), and 2011 (\$100 million), bringing the combined shortfalls that have been closed from 2009 through 2012 to \$446 million, an average of 13 percent of the budget each year.

General Fund revised revenues are now projected to increase by 2.2 percent in 2011 from 2010 actuals and are expected to grow by 2.1 percent in 2012. Some \$37.6 million of the deficit is being solved through improved projections for existing base revenues since January and actions taken to enhance revenues. These actions include the use of \$10 million of excess Fire pension mill levy funds to pay new-hire pension costs in 2011 and 2012, the implementation of a tax amnesty program in 2011, increases in recreation center fees approved by City Council in July, and the use of one-time fund balances from other funds as appropriate for General Fund expenditures.

Core sales and use tax (minus audits and one-time items) revenues are projected to grow by 4.1 percent in 2011 and 3.5 percent in 2012. This is consistent with what other jurisdictions and local economists project may happen this year and next. It is important to note that, while this revenue growth is an indication of an improving economy, we remain at 2007 revenue levels. This is the primary reason for the budget deficits in 2009, 2010, 2011, and 2012.

General Fund expenditures are projected to grow by 5.8 percent over revised 2011 appropriations. An additional \$14 million is now expected to be saved in 2011 and \$48.4 million was reduced from the original projected 2012 expenditures. Without these \$62.4 million in reductions, growth in 2012 would have been 9.4 percent. The savings is being achieved primarily through the abolishment of 95 positions, most of which are already vacant. Other savings is coming from not conducting Police recruit classes again in 2012, implementing efficiency improvements from the Strategic Resource Alignment studies recently completed in Safety, and using alternative sources of funds as appropriate (grants, bonds, E911 trust fund, etc.). Some changes may lead to service impacts, which departments will do everything possible to minimize. The budget also defers equipment replacement and reduces professional services, supplies and materials costs wherever possible without increasing future costs.

Growth in General Fund expenditures is partially due to costs needed to maintain and operate facilities coming online in 2011 and 2012, such as the new Crime Lab and the Stapleton Library, as well as for increases in utility costs. The proposed budget also includes growth in personnel costs due to increases in insurance, a 0.75 percent increase in the contribution to the DERP pension (matched by employees) and proposed merit increases for employees. Funding for potential merit increases in 2012 is being set aside in reserves and is off-set through five proposed furlough days in 2012.

Reserves are being maintained in a manner consistent with the guidelines approved by the Blue Ribbon Task Force on Financial Management and with the City's established reserve policies. Undesignated reserves are projected to end 2012 at 10.7 percent of projected expenditures, or \$100 million. This is a slight increase over the original 2011 budget and highlights our goal of building back to 15 percent of expenditures as the economy recovers. The annual General Fund contingency is being budgeted at 2 percent of projected expenditures (\$18.6 million) and the Capital Improvement Fund has \$1.5 million budgeted for unexpected issues in 2012.

The Housing, Workforce and Human Services special revenue funds also continue to be impacted by the recession and have reduced expenditures to match declining state and federal revenues.

## 2012 Budget Highlights

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In 2012, \$89.7 million is budgeted for capital projects from annual capital revenues and includes the capital maintenance mill levy funding approved by the voters in 2007. The capital project budget is limited to critical maintenance and rehabilitation projects, matching funds to state or federal dollars, legal obligations and other high-priority items such as capital investments aimed at water or energy conservation savings. In addition to these annual funds, close to \$120 million in one-time bond funded projects will be implemented in 2012.

### **Priorities**

The 2012 budget was guided by priorities and initiatives identified by Mayor Hancock: creating jobs, re-thinking government, creating new opportunities for children, and growing sustainable communities.

#### Creating Jobs

Mayor Hancock is crafting a comprehensive strategy to grow the economy and make city government more customer and business friendly. The strategy will include an array of business retention, expansion and attraction efforts and purposeful public investments that will drive private-sector growth, including:

- Eliminating the city's Occupational Privilege Tax registration fee;
- Increasing the Business Incentive Program;
- Improving and increasing services at Denver International Airport;
- Continuing the redevelopment of Denver Union Station;
- Advocating for the completion of FasTracks;
- Completing additional Better Denver neighborhood improvement projects.

#### Fundamentally Re-Thinking Government

While the Great Recession exposed a permanent structural imbalance between revenues and expenses, Mayor Hancock is seizing the opportunity to establish fiscal sustainability, modernize technology and build up the city's reserves by:

- Eliminating waste, streamlining operations and removing inefficiencies through Peak Performance;
- Working with the City's Structural Financial Task Force to bring expenses in line with revenues;
- Allowing businesses, homeowners and citizens to pay city taxes online;
- Streamlining project review and permit approvals;
- Soliciting ideas from city employees through roundtables, town hall meetings, suggestion boxes and other means.

#### Creating New Opportunities for Denver's Children

Mayor Hancock is making children's issues a top priority, from early childhood services to education to nutrition, by:

- Launching the Denver Education Compact, which will unite the City, Denver Public Schools, higher education, businesses and nonprofits around a common mission to improve education and expand opportunities for *all* kids;
- Seeking operational and facility savings with DPS on maintenance, upkeep and shared buildings;
- Establishing a new Cabinet-level Manager of Children's Affairs.

#### Growing Sustainable Communities

To make Denver the most self-sufficient and self-reliant city in the nation, Mayor Hancock is infusing sustainability values and practices citywide by:

- Launching Denver Seeds, a network of urban gardens, greenhouses and local farming operations that will grow a fresh-food economy, create jobs and support local businesses;
- Continuing to meet and exceed the Greenprint Denver sustainability goals;
- Expanding the Denver B-Cycle program – the nation's first large-scale citywide bike-sharing program;
- Continuing to address homelessness through the nationally recognized Denver's Road Home program.

## 2012 Budget Highlights

To fulfill these priorities, the City provides various programs and services through the various agencies. To better explain the programs and services provided, the budget describes investment in both the agencies and the programs. A complete list of all programs and their descriptions can be found on page 197. Identifying the City's investment through programs provides an opportunity to communicate "what the City does" instead of presenting information solely through work unit and agency level detail.

### Measuring for Results

Mayor Hancock is committed to the accountability and performance measures necessary to achieve the City's goals and outcomes. Public performance reporting improves government operations by increasing accountability, enhancing transparency and promoting efficiency. Below you will find information on community indicators that impact citizens' lives, City programs and services. The City hopes to positively influence these measures, even though each measure is impacted by various factors, and plans its programs and services to be responsive to changes.

### Economic Growth

**Measure:** Employment in Denver (December of each year)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Denver residents employed	292,780	290,786	300,390	301,666	298,069	289,854	290,731
Net change from previous period	9,774	(1,994)	9,604	1,276	(3,597)	(8,215)	874
Net change from June 2004	13,053	11,059	20,663	21,939	18,342	10,127	11,001

	<u>2009</u>	<u>2010</u>
The average unemployment rate for Denver County. The average 2010 metro area rate was 9.0%	8.2%	8.9%
Year-to-date change in growth in retail sales over previous year Denver County (metro – 5.7%)	(13.9%)	7.5%
Year-end foreclosures	5,740	5,053

### Fiscal Sustainability

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Undesignated Fund Balance as % of total Expenditures	15.0%	16.3%	16.4%	18.5%	16.7%	10.7%	10.5%	10.5%
Revenue % Change from prior year	(0.26%)	3.23%	4.82%	7.38%	2.06%	(6.45%)	6.81%	2.2%
Balanced Budget	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

	<u>2009</u>	<u>2010</u>
Bond Rating from all three credit agencies	AAA	AAA

### Customer Service

**Measures:** Denver residents responding "excellent" or "good" to the question, "What was your impression of employees of the City of Denver in your most recent contact"

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Knowledge	63%	68%	66%	76%	70%	73%	74%
Responsiveness	51%	58%	56%	63%	63%	62%	67%
Courtesy	58%	63%	60%	69%	64%	71%	69%
Overall impression	52%	60%	58%	65%	61%	65%	66%

	<u>2009</u>	<u>2010</u>
Average time to fill a pothole from the time a citizen calls and the time the pothole is filled	21.6 hours	24 hours
% of citizens who have a good or excellent impression of City Employees	65%	66%

## 2012 Budget Highlights

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### Denver as a place to live

**Measures:** Denver residents responding “excellent” or “good” to the question, "How do you rate Denver" in the categories tabulated below:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Denver as a place to live	84%	84%	83%	85%	93%	89%	88%
Your neighborhood as a place to live	69%	71%	68%	72%	74%	76%	75%
Denver as a place to raise children	62%	57%	58%	58%	68%	72%	69%
Denver as a place to retire	45%	48%	44%	52%	60%	60%	64%
Overall quality of life in Denver	73%	76%	76%	78%	85%	86%	83%

	<u>2009</u>	<u>2010</u>
High School Graduation Rate for classes of 2009 and 2010	46.4%	51.8%
Percent of adults in Denver County who were obese by body mass index	23%	16.6%
Homeless Count at a point in time based on volunteer interviews	6,659	4,166
The % of citizens that rated Recreational Opportunities in Denver as “excellent” or “good”	82%	81%
Percent of citizens who reported using a recreational facility within the previous year	56%	54%
Attendance at Cultural Events (includes events at DPAC, Red Rocks, Coliseum, Crossroads)	1,761,909	1,673,000
Person Trips on Regional Transportation District (RTD)	98,738,266	99,617,037

### Environmental Stewardship

	<u>2009</u>	<u>2010</u>
Percent Days Visibility Rated Poor or Extremely Poor by Colorado Air Quality Control Commission	39.6%	40.9%
Percent change of trash hauled to landfill from Denver residents	0.96%	(2.4%)
Percent change in recycling as a portion of trash generation	11.6%	13.0%

### Safety

	<u>2009</u>	<u>2010</u>
Change from previous year in the number of property crimes reported within Denver	7.4%	(4.6%)
Change from the previous year in the number of crimes against persons reported within Denver	2.5%	(1.6%)
Reported Incidents of Graffiti	32,990	35,115
Denver Traffic Accidents	21,703	21,400

### Employee satisfaction with Denver City government as a place to work

**Measures:** Percent of employees stating that they agree or strongly agree with the statements tabulated below:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2011</u>
Overall I am very productive in my position with the City	78%	78%	77%	95%	98%
Overall I am motivated to do good work	83%	83%	86%	94%	95%
Overall I am satisfied with my job	76%	76%	77%	85%	85%
Overall I am committed to achieving the goals of the City	84%	84%	88%	95%	97%

Data sources include: The City’s website ([www.denvergov.org](http://www.denvergov.org)); the 2004-2010 National Citizen Survey™ (NRC) produced by the National Research Center; the Metro Denver Economic Development Corporation ([www.DevelopmentResearch.org/](http://www.DevelopmentResearch.org/)); RTD ([www.RTD-Denver.com/service](http://www.RTD-Denver.com/service)); Colorado Department of Health and Environment, ([www.colorado.gov/airquality](http://www.colorado.gov/airquality)); Metro Denver Homeless Initiative ([www.mdhi.org](http://www.mdhi.org)); Colorado Dept. of Education ([www.cde.state.co.us](http://www.cde.state.co.us)); 2005-2011 Employee Attitude Surveys conducted and tabulated by Denver's Career Service Authority; Denver Office of Economic Development; US Department of Labor, Bureau of Labor Statistics; 2004-2011 City and County of Denver annual budget documents produced by Denver's Budget and Management Office.

# Explanation of the Budget Document

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The budget document provides detailed information about the City and County of Denver's estimated revenues and expenditures for the ensuing fiscal year. It also serves as a work plan for the City and its departments, including a framework for setting priorities, strategic initiatives and performance measures. The document is divided into the sections described below.

## Introduction

The Introduction contains the Mayor's budget message, budget highlights, an overview of the City's fund structure, a calendar of the budget process, financial policies, and a discussion of the City's reserves.

## Budget Summary

The Budget Summary contains exhibits and charts which summarize revenues and expenditures for the entire City budget, including the General fund, special revenue funds, internal service funds, enterprise funds, capital improvement funds, and debt service funds. This section also contains a personnel comparison for all funds.

## Fund Summaries

The **General Fund** summary section includes financial schedules, which summarize revenues by source, expenditures by department/agency, changes in fund balance, and a detailed discussion of the major General Fund revenue sources.

The **Special Revenue Fund** section includes financial schedules that detail all major grants and outside funding sources as well as descriptions of each broken down by major program categories.

The **Internal Service** and **Enterprise Fund** sections include financial summaries and detailed financial statements for each sub-fund.

The **Capital Improvement Fund** section includes an overview of the City's capital budgeting process, a summary of projected operating impacts from proposed capital projects and financial summaries and detailed project listings and descriptions for each sub-fund.

The **Debt Service Fund** section contains an overview of the City's long term debt and a financial schedule of general obligation bonds and excise bonds.

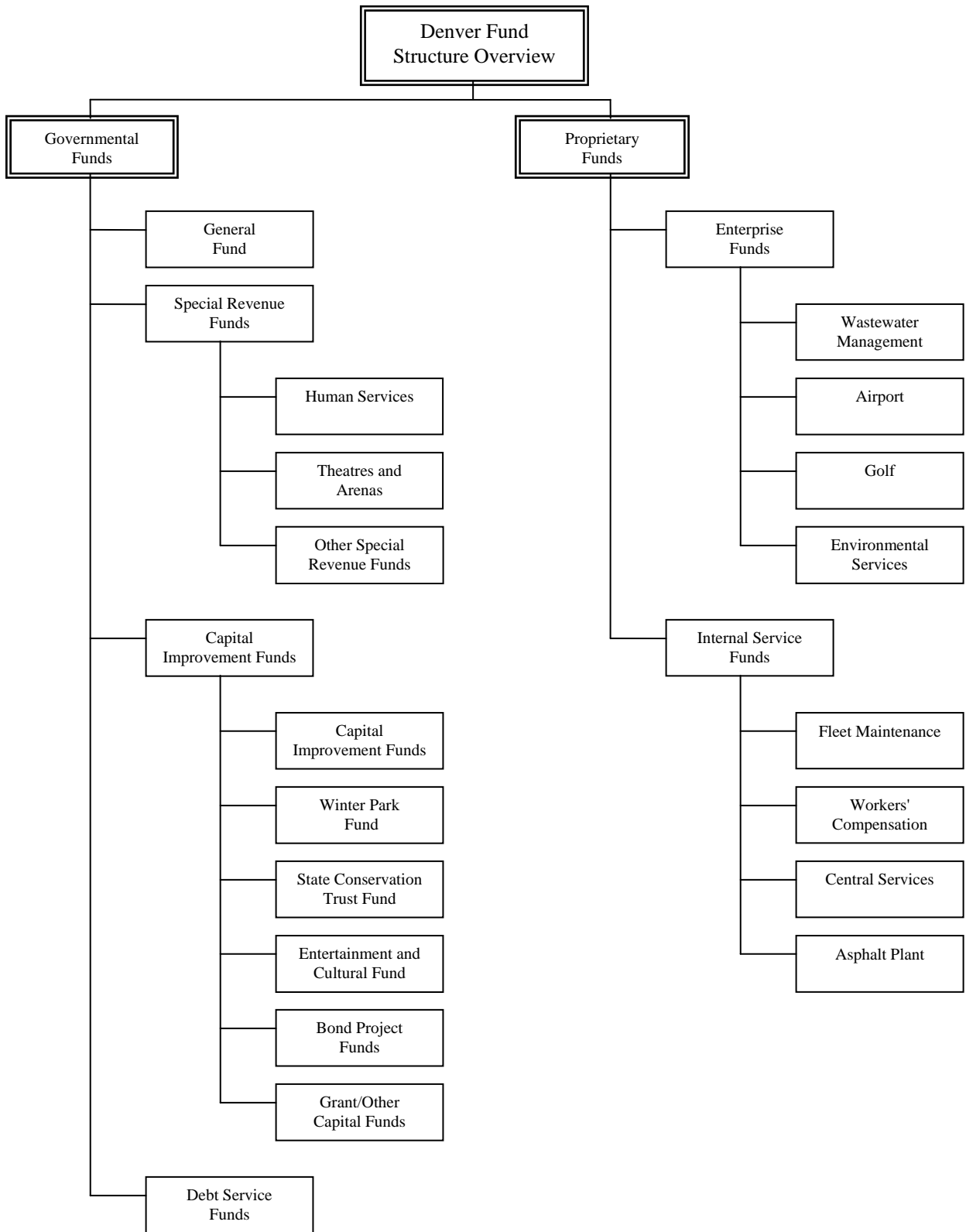
## Agency/Program Detail

The Agency/Program Detail section begins with a comprehensive list and description of all City and County programs across all departments and agencies. The section is then organized by major service area or department and includes budget narratives that encompass all funds. The budget narrative provides a description of the agency, strategic initiatives, performance indicators and context, budget summary information, and an explanation of the changes in the ensuing year's recommended budget from the current year appropriation. If applicable, City Council amendments to the Mayor's proposed budget are marked by shading in the text. The full text of the amendments appears in the Appendices. Further information about a specific program or service can be found in these budget narratives.

## Appendices

The Appendices include a discussion of the City and County of Denver's budget basis; a description of major expenditure categories; a three year comparison of property tax levies and assessed valuation; a glossary of terms; the full text of City Council amendments to the budget; and a community profile and trends about the City and County of Denver.

# Overview of the City's Fund Structure



## Overview of the City's Fund Structure

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The City and County of Denver has established a comprehensive fund plan for financial accounting in accordance with the provisions of the City's Revised Municipal Code. Each agency or activity of the City and County of Denver is placed in a specific fund. This plan was designed to conform to the recommendations of the National Council on Government Accounting as outlined in their publication Government Accounting, Auditing, and Financial Reporting (GAAFR), which is the standard accounting guide for local governments.

Major funds represent the significant activities of the City and include any funds for which revenues or expenditures, excluding other financing sources and uses, constitute more than ten percent of the revenues or expenditures of the appropriated budget. The following is a breakdown of the City's fund structure.

### Governmental Funds

Governmental funds are a group of funds that account for activities associated with the City's basic operations. This group of funds uses a modified accrual basis of accounting and focuses on operating revenues and expenditures.

#### General Fund

The General Fund is the main operating fund for the City and County of Denver which accounts for all general government activity that is not accounted for in other funds. It includes most tax revenues and funds activities traditionally associated with local government including public safety, public works, parks and recreation, health, and administration.

#### Human Services Special Revenue Fund

The Human Services Special Revenue Fund accounts for and administers assistance payments and social services to eligible residents of Denver. Specific revenue sources are state and federal funds and a dedicated local property tax mill levy.

#### Theaters and Arenas and Convention Center Special Revenue Funds

The Theaters and Arenas and Convention Center Special Revenue Funds account for revenues received from Theaters and Arenas venues to support the operation of those facilities.

#### Other Special Revenue Funds

Special Revenue Funds account for revenues, which are restricted by law or administrative action to expenditures for specific purposes. Primary sources of special revenue funds are federal, state, local, and private grants.

#### Winter Park Parks and Recreation Capital Fund

The Winter Park Parks and Recreation Capital Fund accounts for revenues received from the operators of the Winter Park Ski resort. Revenues received are restricted to capital rehabilitation of existing parks and recreation facilities.

#### Capital Improvement Fund

The Capital Improvement Fund is used for the acquisition and maintenance of major capital assets other than those financed through special assessment or enterprise funds. The primary source of revenue is the property tax.

#### State Conservation Trust Fund

The State Conservation Trust Fund accounts for revenues received from the State lottery program. Revenues received are restricted to capital repair and rehabilitation of existing park and recreation facilities.

#### Entertainment and Cultural Capital Fund

The Entertainment and Cultural Capital Fund accounts for revenues received from surplus seat tax charged on tickets for events at the Denver Performing Arts Complex, Red Rocks, the Coliseum, the Convention Center, and the Denver Botanic Gardens. Revenues are used for capital rehabilitation projects at these facilities.

#### Bond Project Capital Fund

This fund accounts for the resources from General Obligation Bonds and Excise Tax Bonds that have been approved for the construction of specific capital projects. Projects in this fund are not appropriated as part of the annual budget process.

# Overview of the City's Fund Structure

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## **Debt Service Fund**

The Debt Service Fund is used for the payment of principle and interest on General Obligation and other long term debts. The major sources of revenue are the property tax and the Facilities Development Admission Tax (seat tax).

## **Proprietary Funds**

Proprietary funds are a group of funds that account for activities that are often seen in the private sector and are operated in a similar manner as in the private sector. This group of funds uses a full accrual basis of accounting and focuses on net income and capital maintenance.

### **Enterprise Funds**

#### **Airport Enterprise Fund**

The Airport Enterprise Fund is used to operate and maintain the Denver International Airport (DIA). All revenues are generated from business operations.

#### **Wastewater Enterprise Fund**

The Wastewater Enterprise Fund is used to manage the collection, treatment, and disposal of sanitary sewage and manage the storm drainage and flood control system. The major source of revenue is fees for service.

#### **Golf Enterprise Fund**

The Golf Enterprise Fund is used to operate the City's golf courses and pro shops. Greens fees, concession fees and pro shop revenues fund the City's golf operations.

#### **Environmental Services Enterprise Fund**

The Environmental Services Enterprise Fund is used to account for the operation and activity of the City's chemical waste disposal, phase-out of hazardous materials disposal sites, and environmental protection. Revenue is from the operation of a landfill disposal site.

### **Internal Service Funds**

#### **Central Services Internal Service Fund**

Central Services accounts for the provision of paper and printing goods and services to City departments on a cost reimbursement basis.

#### **Fleet Maintenance Internal Service Fund**

Fleet Maintenance accounts for the financing of automotive repairs and services provided to City departments on a cost reimbursement basis.

#### **Asphalt Plant Internal Service Fund**

Asphalt Plant accounts for the expenditures and revenues of the City's Asphalt Plant that provides asphalt for the City's street resurfacing program and other users on a cost reimbursement basis.

#### **Workers' Compensation Internal Service Fund**

Workers' Compensation accounts for the city's workers' compensation self insurance activities.

## **Fiduciary Funds**

Fiduciary funds are trust and agency funds which account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, or other funds. These include expendable trust funds, non-expendable trust funds, pension trust funds, and agency funds.

# The Budget Calendar and Process

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The annual budget process is designed to meet the requirements of the Charter of the City and County of Denver, Subtitle B, Article VII, Part 1, Sections 7.1.2 to 7.1.6.

## On or before May 1

The Mayor must prepare a budget calendar and procedures for the preparation of the budget.

## April - June

City departments or agencies prepare operating proposals and long range capital programs guided by the Citywide strategic framework, Mayoral and Council priorities, internal work programs, and capital improvement priorities.

## On or before July 1

On or before July 1, the following actions must take place:

- All agencies, offices, departments, boards, commissions, and other spending agencies must prepare and submit estimates of their revenues and expenditures to the Mayor and City Council for the ensuing fiscal year.
- The estimates of **expenses** must be based upon specific work programs and classified by funds, character and object of expenditures.
- The estimates of **revenues** must be classified by funds and sources of income.
- Changes in ordinances establishing taxes, fees, charges, and other types of revenues may be proposed.
- The Manager of Finance must certify to the Mayor and City Council the amount of money to be raised by taxation to pay the interest on general obligation bonded indebtedness and to provide for the debt service fund.

## July - August

The Budget and Management Office reviews the operating and capital improvements budget proposals with each agency and makes recommendations to the Mayor. The Mayor reviews and approves the budget.

## On or before September 15

The Mayor must brief the City Council on the tentative revenue and expenditure plans for the ensuing year and any major program changes.

## On or before the third Monday in October

After receiving and considering City Council's recommendations, the Mayor must submit to the City Council a proposed budget that must include, but need not be limited to:

- A general statement describing the important features of the budget.
- Statements by funds showing estimates of expenditures, receipts and opening and closing balances compared with the last completed fiscal year and the current year.

## **The Budget Calendar and Process**

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### **On or before the third Monday in October (Continued)**

- Statements of expenditures and work programs of the various agencies, offices, departments, boards, commissions, and other spending agencies.
- The amount to be raised by taxation to pay interest on general obligation bonded indebtedness and to provide for the debt service fund.
- The amounts to be expended during the ensuing year for capital improvement projects and the sources of revenue for financing such projects.

Revenue estimates must be based on already enacted ordinances, excluding the ordinance to establish the mill levy.

Expenditures must not exceed the estimated opening balances and anticipated income.

In the General Fund, the budget estimates must include an amount as a year-end closing balance that cannot be expended except for emergencies. Those expenditures must be approved by a two-thirds vote of the Council.

In the General Fund, the budget estimates must include an amount not less than two percent of the total estimated expenditures for the payment of any unforeseen contingency.

### **On or before the fourth Monday in October**

City Council must publish a notice showing that the proposed budget is available for inspection.

The Council must hold a public hearing on the proposed budget.

### **On or before the first regular Council meeting in November**

City Council may revise, alter, increase, or decrease any items in the Mayor's proposed budget, by majority vote of the members of Council.

### **On or before noon on the Friday immediately following the first regular Council meeting held in November**

The Mayor must submit to Council a list of the amendments and the items revised, altered, increased, or decreased, stating which of the amendments he accepts or rejects.

### **On or before the second regular Council meeting in November**

Council may override the Mayor's rejection of any of its proposed amendments, by a vote of at least two-thirds of its members.

Council may adopt a budget. If the City Council fails to adopt a budget by the required date, the Mayor's proposed budget, with any amendments enacted by a two-thirds vote of the Council members, becomes the official budget.

### **On or before the fourth Monday in November**

City Council must enact an ordinance making appropriations for the ensuing fiscal year.

# Financial Policies

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## Overview

The following financial policies are established to provide direction in the fulfilling of the duties and responsibilities in the City and County of Denver.

## Financial Planning Policies

### Balanced Budget

The City Charter states, "The budget proposed by the Mayor shall not propose expenditures in excess of estimated opening balances and anticipated income." (Sec. 7.1.4) This applies to all funds.

While the City Charter permits the City to use fund balance as a resource to balance the budget, fund balance should not and cannot be used as a long term approach to balancing the budget. Planned uses of fund balances should be limited. It is appropriate to use fund balances when there is a severe economic downturn. This provides the City additional time to make the necessary structural changes to bring the budget into alignment on a long term basis.

It is also appropriate to use fund balance when fund balances have increased beyond the reserve requirements due to higher than anticipated revenues. In this circumstance, the use of fund balances will be used for one time expenditures, not ongoing operating costs. In all circumstances, it is important to retain sufficient undesignated fund balance for unforeseen circumstances. Refer to "Use of Reserve Accounts" for further discussion.

The executive branch is responsible for ensuring that the current year budget is in balance. The Budget and Management Office will advise the Mayor on year-to-date expenditures and revenues and any corrective actions that are necessary. The City Charter prohibits use of additional fund balance during the year except for emergencies; such use must be approved by a two-thirds vote of City Council.

### Long-Range Planning

The City needs to have the ability to anticipate future challenges in revenue and expense imbalances so that corrective action can be taken before a crisis develops. In order to provide City officials with pertinent data to make decisions for multi-year policy direction, the Director of the Budget and Management Office shall annually develop, with the assistance of City agencies, a three year General Fund revenue and expenditure forecast. This forecast will identify changes in revenue and expenditures due to projected new development in the City, program changes, collective bargaining agreements, and capital projects coming online.

Agencies are required to assess and report annually on needed capital improvement projects for the subsequent six years. The report is then fiscally constrained for the first two years to the estimated total annual capital revenues.

During the budgeting process, all capital improvement projects are analyzed to determine if they reduce, maintain, or increase operating and maintenance costs.

The Department of Finance participates in the evaluation of private development projects that utilize tax increment financing to determine the long-term financial impact on the City.

The Budget and Management Office reviews ordinance requests to determine the financial impact of requests.

The Budget and Management Office reviews grant applications to determine whether matching funds are available and whether the City will be responsible for funding a program after grant funding ceases.

# Financial Policies

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## Asset Inventory and Condition Assessment

The City and County of Denver inventories and assesses the condition of all major capital assets. Public Works, Parks and Recreation, Facilities Planning and Management, Libraries, and Theaters and Arenas shall maintain inventories of all major assets including streets, bridges, traffic signals, sewers, buildings, irrigation systems, and parks. Each department or agency shall prepare reports required to meet the GASB 34 audit requirements. In addition, each department or agency shall develop systems and processes to assess the condition of the capital assets that they are responsible for maintaining. This condition assessment shall be updated on an annual basis.

## Revenue Policies

### Revenue Diversification

The City values a diversified mix of revenue sources to mitigate the risk of volatility. The major source of revenue for the General Fund is sales and use tax, which is over 50 percent of the total revenue. Since sales tax is a direct function of business cycles and inflation, it is important to make every effort to improve the diversity of the City's revenue sources.

The TABOR (Taxpayers Bill of Rights) amendment to the State Constitution prohibits the City and County of Denver from increasing any taxes without approval by a vote of the people. TABOR places further restrictions on property tax. The City and County of Denver annually projects the allowable growth rate for property tax rate in compliance with the TABOR amendment. If the projected revenue from assessments exceeds the TABOR limits, the City and County of Denver will make a temporary mill levy reduction to stay within the limits.

All agency generated revenues will be reviewed at least every three years to determine whether the current rates are consistent with the City and County of Denver's Fees and Charges policies, which are summarized below.

### Fees and Charges

The general policy of the City and County of Denver regarding fees and charges is based upon the following considerations:

- Tax dollars should support essential City services that benefit and are available to everyone in the community (such as parks, police and fire protection).
- For services that largely or solely benefit individuals, the City should recover full or partial costs of service delivery through user fees.
- A fee should not be imposed on services where the cost to collect the fee exceeds the cost of the service.
- User fees must not exceed the full cost of providing the service.
- Fee increases must be approved and implemented prior to including the revenue increase in the proposed budget.
- User fee pricing policies should take into consideration:
  - Whether the service benefits the community in general or only the individual or group receiving the service
  - Whether the service is provided only by the public sector, or also by the private sector
  - Whether imposing the full cost fee would pose a hardship on specific service users
  - Whether imposing the full cost fee would place the City and County of Denver at an economic disadvantage
  - Whether NOT imposing a full cost fee would cause an unrealistic demand on the service.

## Financial Policies

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The full costs of providing a service shall include at least the following:

- Direct costs associated with providing the service, including:
  - The cost of the time all employees spend on the service, including fringe benefits
  - Other direct costs, such as supplies and materials, contractual services, or internal service fund charges associated with the service
- Building and equipment depreciation
- Unit, section, division supervision, or clerical support, etc.
- Departmental indirect costs
- Citywide indirect costs (available through the City's Indirect Cost Allocation Plan).

### Use of One-time Revenues

One time revenues should be used only for one time expenditures and not for ongoing expenditures. By definition, one time revenues cannot be relied on in future budget years. Examples of one time revenues are unexpected audit collections for sales tax, sales of City assets, or one time payments to the City.

The best use of one time revenues is to invest in projects that will result in long term operating cost savings. Appropriate uses of one time revenues include early debt retirement, capital expenditures that will reduce operating costs, information technology projects that will improve efficiency, and special projects that will not incur ongoing operating costs.

### Use of Unpredictable Revenues

Sales tax revenue is a volatile source of revenue since it is a direct function of business cycles. During periods of strong growth, sales tax revenue has increased by over 10 percent from the previous year. During periods of recession, sales tax has actually been lower than the previous year. It is not prudent to allocate sales tax revenue that exceeds the normal growth rate (defined as the average annual growth rate over the last ten years) to ongoing programs. Therefore, sales tax revenues that exceed the normal growth rate should be used for one time expenditures or to increase reserves for the inevitable economic downturns. When sales tax revenue growth is less than the normal growth rate, it may be necessary to use reserves until appropriate expenditure reductions or other measures can be implemented. Refer to the General Fund Reserve Policy for further discussion.

Interest income is also volatile. Any interest earnings that exceed the average annual earnings over the last ten years should be used for one time expenditures or to increase reserves.

The TABOR amendment to the State Constitution limits the growth of revenue to the rate of inflation plus a local growth factor. If revenue exceeds this limitation, the City is required to reimburse the citizens or ask the citizens to retain the revenue through voter approval. The City was successful in getting voter approval to exempt all sources of revenue from this requirement through 2014, with the exception of property tax. As a result, the TABOR limit applies only to property tax revenues. If property tax revenues exceed the limit in 2011 and in the future, the City will be required to get voter approval to retain the revenue or refund the excess revenue to the taxpayers through temporary mill levy reductions.

### Use of Capital Improvement Fund Revenues

Capital improvements funds are used for the acquisition, repair, or rehabilitation of assets that last for 15 years or more. A project can be considered a capital improvement project if it is for nonrecurring expenses in excess of \$10,000.

## Financial Policies

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The primary financial resources dedicated to the Capital Improvements Fund include a portion of the property tax mill levy, a portion of the Highway Users Fund Transfer (which is allocated to bridge repair), investment earnings of the fund, and proceeds from the sale of City assets.

In addition, there are capital improvement funds that have specific revenue sources dedicated for specific purposes. These include the State Conservation Trust Fund, the Winter Park Parks and Recreation Capital Fund and the Entertainment and Cultural Capital Projects Fund.

Expenditures from the capital improvement funds emphasize repair, rehabilitation and upgrades to existing City infrastructure. A lesser percentage of the total annual funds is used for new projects. High cost new projects should be financed with financing tools that do not significantly impact the use of annual capital funds.

Capital funds are dedicated to capital uses as defined above, as well as to capital planning studies that report on condition and inventory of infrastructure, infrastructure concept planning and efficiencies to current assets that result in operating savings.

## Expenditure Policies

### Debt Capacity, Issuance and Management

The key principles of the City's debt policy:

<b>Equity</b>	Those that benefit from the item financed should pay for it.
<b>Effectiveness</b>	Once the transaction is completed, it accomplishes its intent and the identified revenue source for repayment is adequate to meet debt service.
<b>Efficiency</b>	The relative cost of obtaining funds, including the costs of the financing and the costs of collecting pledged revenues, is better than competing alternatives.

### Planning and Conditions of Issuance of Obligations

The Chief Financial Officer (CFO) shall evaluate and consider the following factors in analyzing, reviewing and recommending the issuance of obligations:

1. Purpose and feasibility of the project
2. Public benefit of the project
3. Quantification of capital costs
4. Impact on debt ratios generally applied by rating agencies
5. Impact on the General Fund
6. Availability of appropriate revenue stream(s)
7. Requirements for and costs of a vote for approval of the financing
8. Debt Service requirements including credit implications
9. Aggregate debt burden upon the City's tax base, including other entities' tax supported debt
10. Analysis of financing and funding alternatives, including interfund borrowing and available reserves from other City funds
11. Opportunity costs to other capital needs and requirements
12. Political and policy implications
13. True interest cost of the proposed financing
14. Opportunity costs of City resources being deployed on the project
15. If refinancing: the net present value savings; size of issue; absolute dollar savings; and number of years remaining on outstanding obligations.

# Financial Policies

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## Types and Features of Debt

### General Obligation (GO) Bonds

General Obligation bonds are a common type of municipal bond that is secured by local government's pledge to use legally available resources, including tax revenues, to repay bondholders.

1. No GO Bonds, including limited tax GO Bonds, shall be issued until approved by a majority of those qualified electors voting. The refunding of GO Bonds shall be in accordance with applicable law.
2. The issuance of GO bonds should be carefully conserved and used only for projects clearly benefiting the broad public interest. True public projects of an essential nature and without associated revenue streams shall be the strongest candidates for GO financing.
3. Per Section 7.5.2 of the City Charter, the City shall not become indebted for GO bonds, to any amount that shall exceed three percent of the actual value as determined by the last final assessment of the taxable property within the City. This limitation does not include bonds issued by the Denver Water Board.

### Certificates of Participation (COPs)

COP financing for assets will be used only for expensive and long lived assets that, if financed with cash annually, would be disruptive to an annual capital program. In addition, the City should adhere to the following guidelines:

1. COPs may be used for capital improvements and certain eligible capital equipment.
2. Capital improvements and capital equipment financed must be for "basic" and "essential" City services.
3. As a general rule, individual minimum equipment cost should be \$500,000 with a minimum useful life of seven years.
4. The useful life of the asset(s) being financed should not be shorter than the term of the lease, but in no event shall the maximum term of the lease exceed 20 years for real estate assets and 15 years for all other assets. Useful life will be determined based upon industry standards and past experience with consideration given to technological obsolescence.
5. Capital equipment must be replacement equipment for existing services, not for new service programs.
6. Capital improvements may be for new or replacement facilities.

For assets being acquired by either the General Fund or an enterprise fund, total annual certificated lease payments should not exceed five percent of annual fund revenues.

Before proceeding with a COP financing, the City Attorney's Office should be consulted regarding issues associated with the transaction, including cross collateralization, compulsion-to-pay and other matters.

### Revenue Bonds

As a general rule, revenue bonds will be issued to finance assets that provide revenue that will repay the obligation issued.

The use of revenue bonds is the favored form of obligation if direct beneficiaries of a given improvement can be clearly identified and such beneficiaries can pay for a fair share of its costs.

New money non-enterprise fund tax revenue bonds shall not be issued unless approved by a majority of those qualified electors voting.

Prior to issuance of enterprise fund debt, the CFO shall review the financial condition of the enterprise fund and the contemplated debt to confirm that current and future operating income is sufficient to ensure payment of obligations and maintain or improve current credit ratings.

# Financial Policies

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## Special Districts

Local Public Improvement Districts. Pursuant to Section 7.6.1 through 7.6.19 of the Charter, the City may create districts to enable assessing the costs of constructing local public improvements. The financing of such costs can be accomplished through (i) the issuance of bonds or (ii) the appropriation of Revolving Fund monies. Accordingly, the benefited properties will be assessed a proportionate share of the whole cost of the improvement in order to repay the principal of and interest due on any such funds advanced and any costs associated thereto.

1. The improvement must enhance the value of the property against which the assessment is levied in an amount at least equal to the amount of the assessment.
2. The term for repayment of the funds advanced should not exceed 15 years.
3. Voter authorization must be acquired to issue new money bonds. An elector is defined as a person, qualified to register to vote in the general elections of the City, and (i) has been a resident of the district for not less than thirty days or (ii) owns taxable real or personal property within the district—whether the person resides in the district or not.
4. If the Revolving Fund is the financing mechanism, the rate of interest to be charged for any funds advanced shall approximate the rate as if General Obligation bonds were issued. The expenditure of Revolving Funds requires an appropriation by the City Council.

## Tax Increment Financing Districts

The Denver Urban Renewal Authority administers Tax Increment Financing Districts. New districts are created only upon analysis demonstrating that the future revenue benefits exceed the aggregate tax increment to be pledged for debt service.

## Interfund Borrowing

Interfund borrowing, to the extent permitted by applicable laws, will only be allowed subsequent to predetermining a repayment schedule, including the payment of interest.

## Operating/Capital Expenditure Accountability

**Accounting System Budget Control Levels.** No payment shall be made or obligation incurred against any appropriation unless there is a sufficient unencumbered balance in the appropriation.

**Budget Adjustments within the Approved Appropriation.** A department or agency may make budget adjustments within the approved appropriation. No budget revision that moves budget out of the personal service and capital equipment categories is allowed without the approval of the Director of Budget and Management.

**Operating Budget Monitoring and Control.** Department and agency managers have primary responsibility for the control of budgeted expenditures, the collection of budgeted revenues and the delivery of service in accordance with the adopted work plan.

Agency managers are responsible for identifying significant changes in the work program, spending, or revenue variances. They must identify the cause and recommend solutions. Agencies must notify the Budget and Management Office of all significant changes to the budget.

The Budget and Management Office is responsible for monitoring the implementation of the City's adopted annual budget. The Budget and Management Office will review monthly actual expenditure and revenue reports compared to the budgeted amounts. The Budget and Management Office will also monitor department and agency progress in completing their work program through quarterly meetings with agencies and review of performance indicators.

## Financial Policies

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When variances are identified, the Budget and Management Office will notify agencies and the Mayor's Office of the variances and develop corrective plans.

The Budget and Management Office will work with agencies in approving mid-year budget changes. This includes:

- Budget adjustments moving budget out of the personal service and capital equipment categories
- Budget adjustments requiring supplemental appropriations or rescissions
- Revision of the revenue budget
- Revision of the work program.

Once a recommendation is developed, the Director of Budget and Management and the agency Manager will present the recommendation to the Mayor for approval.

**Capital Budget Monitoring and Control.** Capital project managers are expected to construct/implement projects within the appropriated budgets. Project budget submittals at the time of original request should identify all the costs and provide sufficient contingency to meet unanticipated circumstances.

There are cases, however, when supplemental funds may be needed. These are:

1. Increasing the scope of the project to do unanticipated work that is most efficiently done concurrently with the project
2. Extraordinarily high bids and the scope of work cannot be reduced
3. A change in work program initiated or approved by the Mayor's Office
4. An unanticipated serious health or safety hazard or legal mandate
5. An unanticipated repair immediately necessary to maintain the integrity of the asset
6. Unanticipated opportunities that would be lost if the project were to wait for the next budget cycle.

Agencies will be asked to look at reducing scope or rescinding funds from other agency capital projects before new funds will be appropriated.

## Reserve Policies

### General Fund Reserve Policy

The City and County of Denver's overall objective is to achieve structural balance between operating revenues and expenditures. Because both revenues and service demands can fluctuate without much advance notice, it is financially prudent to have reserve funds and a policy for their use.

The City and County of Denver has several reserves in the General Fund (GF) to address unforeseen revenue shortfalls or unanticipated expenditures. The specific reserves include:

- A contingency reserve of two percent of expected GF expenditures;
- Undesignated fund balance targeted at 15 percent of annual GF expenditures;
- The state required TABOR emergency reserve, which is three percent of all covered funds.

The three reserves provide over 20 percent of the General Fund's expected expenditures to respond to revenue shortfalls or unanticipated expenditures. The following policy reflects a tiered approach to the use of reserves based on the level of severity of the situation.

# Financial Policies

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## Contingency Reserve

The City Charter requires that the proposed budget for the General Fund shall include not less than two percent of the total estimated expenditures for the payment of any expense, the necessity of which is caused by any casualty, accident or unforeseen contingency, after the passage of the annual appropriation ordinance. Revenues received during the year in excess of those projected, or a beginning balance larger than projected, will automatically be added to the contingency reserve. At year-end, any unspent contingency reserve rolls into the undesignated, unreserved fund balance. The contingency reserve is the most flexible of the reserves addressed in this policy. The City expects that a portion of this reserve will be used in almost every year.

The criteria for use of the contingency reserve to increase operating budgets are:

1. An unexpected event such as a natural disaster or an accident
2. Large unexpected retirement payouts or unrealized vacancy savings
3. A change in work program initiated or approved by the Mayor's Office
4. Prior year budget for a specific item that lapsed before the purchase
5. A technical correction of the original budget
6. A change in legislation creating an unfunded mandate.

After the passage of the annual appropriation ordinance, the contingency reserve is the first reserve to use for any revenue shortfall or unanticipated expenditure. Any increase in an appropriation must be approved by City Council ordinance.

## Undesignated and Unrestricted General Fund Balance

Given the volatility of sales tax revenue and TABOR restrictions, the City has a target of maintaining a fund balance reserve that is 15 percent of expenditures. The undesignated and unrestricted fund balance reserve amount should not go below 10 percent of expenditures, except in response to a severe crisis, economic or otherwise.

## Use of Reserves

### A. Use of fund balance reserves above 15 percent

Fund balance reserves above 15 percent can be used for one time or capital expenditures and debt reduction.

Reserves in this sub-category are very flexible and available for use. These reserves provide an opportunity for strategic investment and problem solving.

### B. Use of fund balance reserves above 10 percent and below 15 percent

Fund balance reserves above 10 percent can be used for one time expenditures and to stabilize the City during normal economic cycles when revenue growth is below the historical average. Fund balance reserves can be used when the anticipated revenue growth is below the historical average with the following considerations:

- Reserves should only be used to provide a short term solution to maintaining services until projected revenue growth or necessary expenditure reductions are achieved to balance the budget. It is critical to identify and address the issues that are causing the budget imbalance. The City must evaluate the length and severity of the economic conditions and their impact on future revenue projections to determine the extent of expenditure reductions or revenue increases that are required to achieve structural balance.
- The City should first seek to offset revenue declines with expenditure reductions. Reserves should only be used when further reductions in expenditures would impact essential City services. As a minimum standard, any use of fund balance should be matched by equal or greater expense reductions in times of economic downturn.

## Financial Policies

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- Fund balance reserves can be used very selectively to offset further service cuts when beginning an economic recovery and projected revenues are not yet growing at the historical average, only if there is a clear replenishment plan.

Reserves in this sub-category are not flexible and should only be used to offset revenue shortfalls or extraordinary expenditure demands.

### **C. Use of fund balance reserves below 10 percent**

The use of fund balance reserves below 10 percent is restricted to respond only to a severe crisis, economic or otherwise. This category is only used in the most unusual or unexpected situations. Ideally, this reserve category would never be used.

### **Reserve Replenishment**

Any use of fund balance reserves below the 15 percent target should be accompanied by a replenishment plan. This is particularly critical when reserves are below the 10 percent floor. If reserves are below the 10 percent floor, no growth in discretionary expenditures should be allowed until the General Fund reserve is restored to 10 percent.

### **TABOR Reserve**

The TABOR amendment to the State Constitution requires that the City establish an emergency reserve fund of three percent of all covered funds. The funds cannot be used for economic conditions, revenue shortfalls, or salary or benefit increases. Any use of the TABOR reserve must be replaced within one year. Because of the constitutional restrictions and the requirement to repay this reserve by the end of the next fiscal year, use of the TABOR reserve is limited to extreme disasters. This requirement is met through a combination of cash reserves and real estate assets in Special Revenue Funds.

## Grant Administration

### **Applications for Federal, State, or Private Funds**

Funds from federal, state and private sources are important resources that need to be included in the City's financial plan. The City is committed to a Citywide coordination of grant activities among agencies and to determine the immediate and longer term financial consequences of accepting funding. Executive Order Number 15 states that any City Department/Agency intending to apply for funding from a federal, state, or private source shall immediately notify the Budget and Management Office of its intent. Budget and Management reviews the notification to determine whether proposals are consistent with City priorities, ensures that proposals are coordinated with the City's existing programs, ensures that administrative, reporting and evaluation requirements are adequately addressed, assesses the need for a cash match, and evaluates the immediate and long-term financial consequences of the proposal. In accordance with Section 20-52 of the Revised Municipal Code, funds in excess of \$500,000 from the federal or state governments require the approval and authorization of City Council acting by ordinance prior to acceptance.

### **Use of Grant Funds**

Agencies receiving the spending authority are the primary responsible party for compliance with grant restrictions, applicability, and reporting. All grant funds will be expended for the purposes for which they were granted and in the time period for which they were granted. Proper accounting records will be maintained.

# Reserves

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## Annual Contingency Reserves

**General Fund Contingency Reserve.** The City Charter requires that the proposed budget for the General Fund shall include an amount not less than two (2) percent of the total estimated expenditures for the payment of any expense, the necessity of which is caused by any casualty, accident or unforeseen contingency, after the passage of the annual appropriation ordinance. In 2012, the General Fund Contingency Reserve is \$18,622,000.

**Capital Improvement Fund Contingency Reserve.** The Capital Improvement Fund also maintains a contingency reserve for unanticipated expenditures. In 2012, the Capital Improvement Fund contingency reserve is \$1,518,000.

## Emergency Reserves and Undesignated Fund Balances

**TABOR Reserve.** The TABOR amendment to the State Constitution requires that the City establish an emergency reserve fund of three percent of all covered funds. These funds cannot be used for economic conditions, revenue shortfalls, or salary or benefit increases. In 2012, the estimated three (3) percent reserve requirement is \$34.3 million. This requirement will be met as follows:

	<u>2010</u>	<u>2011</u>	<u>2012</u>
TABOR Reserve Special Revenue Fund	\$19,389,000	\$19,970,670	\$20,569,790
TABOR Reserve Real Estate Special Revenue Fund	11,600,000	11,700,000	11,800,000
Human Services Restricted Fund Balance	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>
Total	\$32,989,000	\$33,670,670	\$34,369,790

**Undesignated Fund Balance.** Undesignated fund balances provide a safeguard during economic downturns and extraordinary emergency situations, as outlined in the Financial Policies section. In 2012, the projected ending undesignated fund balance in the General Fund is \$101,007,000 or 10.8 percent of expenditures. Refer to the other funds' financial statements later in this document for a record of projected fund balances in those funds.

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